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DE RUEHME #2545/01 1382154

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FM AMEMBASSY MEXICO

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UNCLAS SECTION 01 OF 02 MEXICO 002545

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USDOC FOR ITS/TD/ENERGY DIVISION

TREASURY FOR IA (ALICE FAIBISHENKO)

DOE FOR INTERNATIONAL AFFAIRS KDEUTSCH AND ALOCKWOOD

STATE PASS TO USTR (EISSENSTAT/MELLE)

STATE PASS TO FEDERAL RESERVE (CARLOS ARTETA)

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SUBJECT: MEXICO ECONOMIC NOTES, MAY 11 - MAY 18

Summary

11. (U) Mexico's economy grew at an annualized rate of 2.6 percent in the first quarter of 2007, the lowest in a year. In a speech accompanied by controversial teachers' union president Gordillo, President Calderon outlined coming educational reforms. The Mexican Supreme Court began considering a constitutional challenger to the April 2006 "Televisa Law." A ruling could overturn the government's decision to allow broadcasters to hold on to their existing spectrum for new services without charge. Economy Secretary Sojo criticized the U.S. House of Representatives passage of a bill halting the pilot project allowing Mexican trucks to operate in the U.S. The Guatemalan Ambassador to Mexico criticized President Calderon's decision to significantly reduce the volume crude Mexico would supply to the proposed Central American refinery. End summary.

Mexican Economy Slows

12. (U) In the first quarter of 2007, the Mexican economy grew at its slowest rate in more than a year, largely because of a drop off in automobile output and construction. Real GDP grew 2.6% from a year earlier, slightly below the average market expectation of 2.7% but down sharply from the 4.3% growth registered in the fourth quarter of 2006. Slower growth in the U.S. is weakening demand for Mexican goods in the U.S., the destination of 85% of Mexico's exports. The automobile sector in particular has suffered, with vehicle production down 12.4% in the first quarter compared with the first quarter of 2006. Auto output in April rebounded 11% over the same month in 2006, but it is too early to project a recovery. Industrial production rose only 0.2% in March, after growing only 0.1 in February and 1.5% in January. Construction, which surged during last year's election season and from Hurricane Wilma cleanup, fell 0.7% in February and rose only 1% in March.

Calderon Outlines Education Reform

13. (U) President Calderon publicly proposed education reforms in five areas (1) improving teaching quality, by promoting freedom, civic responsibility, and competitiveness in the classroom (2) evaluating teachers in cooperation with the union (3) improving buildings and infrastructure (4) increased use of technology, and (5) linking education more closely to the demands of the labor market. The President announced the initiative accompanied by Education Secretary Josefina Vazquez Mota and controversial teachers' union leader Elba Ester Gordillo.

Supreme Court Considers "Televisa Law"

14. (U) This week the Mexican Supreme Court began considering a draft ruling on the constitutional challenge filed last year to the April 2006 "Televisa Law." If approved, the ruling would overturn many key elements of the Law including the right to allow broadcasters to hold on to their existing spectrum for free and to simply inform the government of their intent to offer new services. While overall the draft ruling appears to encourage competition in the sector, it could also overturn the Article that established that public auctions be conducted to grant frequencies. The judge who wrote the draft ruling stated that this Article violates the Constitution because it privileges economic interests before the social use of the spectrum. Opponents of the 2006 law have picked up support across the political spectrum over the past two weeks. (See Mexico 2507)

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Economy Secretary Criticizes U.S. Congress on Trucking

15. (U) Economy Secretary Eduardo Sojo, speaking in Paris, said the Mexican Government would 'sensitize' the U.S. Senate so they would not pass the trucking bill approved by the House last week. Sojo said the bill "would restrict the entrance of Mexican trucks to the U.S. in violation of NAFTA." He added that Mexico "did not want to lose its greatest competitive advantage, access to the largest market in the world." He called opening the border to Mexican trucks a U.S. NAFTA obligation, and the result of an agreement between the U.S and Mexican governments.

Guatemalan Ambassador on Mesoamerican Refinery

16. (U) The Guatemalan Ambassador to Mexico, Manuel Soto, criticized President Calderon's decision to reduce the crude Mexico would supply to the proposed Central American refinery from 230 to 80 thousand barrels per day. The refinery, a cornerstone of the Mesoamerican Energy Integration Plan (PIEM), would have benefited from a steady supply of Mexican heavy crude. Without that steady supply, the project's economics become unsustainable according to Embassy sources. Soto's criticisms are the first since Calderon announced the reduction in a Calderon Plan Puebla Panama speech April 10. Soto said the decision would allow other suppliers, such as Venezuela, to satisfy Central American energy demand.

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